Kaiser Resources Ltd. Annual Report 1976

Contents

Kaiser Resources Ltd.

Kaiser Resources Ltd., incorporated under the laws of British Columbia, is primarily a producer of metallurgical coal used in making steel. The Company operates surface and underground mines and coal processing facilities at Sparwood, in southeastern British Columbia. Through a subsidiary, Westshore Terminals Ltd., the Company also operates a Pacific Coast bulk-handling port facility at Roberts Bank, south of Vancouver.

Executive Offices
Kaiser Resources Ltd.
2600 Board of Trade Tower
1177 West Hastings Street
Vancouver, B.C.
V6E 2L1

Mining Operations
Kaiser Resources Ltd.
Box 2000
Sparwood, B.C.
V0B 2G0

Port Operations
Westshore Terminals Ltd.
Roberts Bank
Delta, B.C.
V4K 3N2

Form 10-K
A copy of the Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission, is available without charge upon request to the Public Affairs Department at the Company's executive offices in Vancouver, British Columbia.

Annual Meeting
The annual meeting of shareholders will be held on May 17, 1977 at the Bayshore Inn, 1601 West Georgia Street, Vancouver, B.C. at 11:00 a.m. local time.

Highlights

(Thousands except for per share statistics)	**1976**	1975
Shipments — tons:		
Metallurgical coal	**4,530**	4,971
Thermal coal	**314**	489
Coke and breeze	**110**	133

Sales	**$262,890**	$259,870
Net earnings	**52,387**	71,229
Net earnings per share	**1.98**	2.83
Fully diluted net earnings per share	**1.95**	2.66
Dividends per share	**.81½**	.75

Cash flow from operations	**$ 77,237**	$ 99,339
Working capital	**102,380**	66,315
Capital expenditures	**13,330**	21,416
Total assets	**295,646**	261,869
Total long-term debt	**11,708**	18,980
Employment costs	**38,352**	37,775

Number of shareholders	**6,455**	5,390
Number of employees	**2,030**	2,008

Financial information presented above should be read in conjunction with the consolidated financial statements and other financial data included in this report.

Tonnage figures in this report are expressed in long tons (2,240 pounds) except where indicated as short tons (2,000 pounds) or metric tons (2,204.6 pounds).

Kaiser Resources had a good year in 1976. Net earnings for the year were the second highest in the Company's history and considerable progress was made in the diversification of markets for the Company's products. These results were achieved despite the depressed world economy, a continuing weakness in metallurgical coal markets, and a two-month strike at our coal mining and processing operations. The strike followed a decision by the federal Anti-Inflation Board to roll back compensation which was to have been paid under a collective agreement with the United Mine Workers of America.

Consolidated net earnings for the year totalled $52.4 million or $1.98 per share on sales of $263 million. In 1975, the Company had record earnings of $64 million or $2.54 per share, before an extraordinary income tax credit of $7.2 million or 29 cents per share. Sales in 1975 were $260 million. Earnings declined in 1976 primarily as a result of a higher effective tax rate and the absence of extraordinary income from tax losses carried forward. Earnings before taxes in 1976 increased by $1.7 million over 1975 despite a lower level of shipments.

Reduced world steel production continues to impact adversely on the demand for metallurgical coal, which is used in the steel-making process. At the end of 1976, inventories of coal were at high levels in most markets, particularly in our principal market of Japan. Demand for metallurgical coal is not expected to increase substantially during 1977.

Market Diversification

In spite of the weakness in world coal markets, Kaiser Resources began shipments in 1976 under new long-term sales contracts with steel mills in the Republic of Korea and Mexico and subsequently increased tonnages under these contracts. An amendment to the Korean contract extended its term from 1980 to 1985. Additionally, the Company sold trial cargoes of metallurgical coal to two of the three major steel mills in Brazil and is currently negotiating to supply up to 200,000 tons per year to that market under a long-term contract.

The Company's marketing strategy continues to be based on its ability to supply high-quality coal to developing steel mills at competitive prices. We continue to seek long-term contracts which offer stability in operations, enabling the Company to retain a highly-skilled work force. This, in turn, contributes to profitability through increased productivity. The Company is continuing efforts to establish new contracts in South America and the Far East. While we have embarked upon a program of market diversification to lessen our dependence on a single major customer, Japan's massive steel industry remains our most important market. The Company supplies approximately eight percent of Japan's total metallurgical coal imports.

Potential for Growth

Four years of profitable operations have placed the Company in a strong position for growth. The ability of our people and our advanced coal mining technology will permit us to take advantage of new business opportunities in the fields of coal mining and processing, coal engineering, and bulk-loading port operations. We are pursuing opportunities in those fields, both in Canada and internationally.

In British Columbia, a proposed new underground hydraulic mine and preparation plant in the Hosmer-Wheeler area of the Company's property is considered to be technically feasible. Studies of the project's financial and commercial feasibility are continuing. If the project proceeds, it would produce approximately two million tons of metallurgical coal per year.

Early in 1977, a major Brazilian iron ore company declared its intention to join the Company and its Japanese partners in the project. Companhia Vale do Rio Doce (CVRD) would purchase from Mitsui Mining Company, Limited a five-percent interest in the joint-venture company. Kaiser Resources would own 70 percent of the project and the remainder would be owned 20 percent by Mitsui and five percent by Mitsubishi Corporation. It also is the intent of CVRD to purchase a minimum of 250,000 tons of coal per year from the new mine if the project is placed in production.

In other understandings reached with CVRD, Kaiser Resources would train CVRD's personnel in the techniques of coal exploration and has the opportunity to join with CVRD as an equity and operating partner in any other coal development which CVRD might undertake.

Kaiser Resources is interested in expanding its thermal coal business in anticipation of future high demand. The Company is actively searching for thermal coal opportunities in North America and has performed a prefeasibility study on the possible expansion of a thermal coal mine in Rio Grande do Sul, Brazil. This study, to increase production from 360,000 tons per year to 1.2 million tons per year, was carried out in conjunction with a Brazilian engineering firm and could lead to an equity participation by Kaiser Resources in the mine.

Westshore Terminals

Westshore Terminals Ltd., a wholly-owned subsidiary, is planning an expansion of its coal-handling operations at Roberts Bank. The port expansion is being examined in anticipation of increased exports by Kaiser Resources and other Western Canadian coal producers. Development of the new facilities is dependent upon favorable results of an environmental impact study and the provision for additional land fill at the government-owned site.

Canadian Ownership

Public ownership of the Company rose to 40 percent from 25 percent in 1976, primarily as a result of the sale in November by Kaiser Steel Corporation of 3.5 million of its shares in Kaiser Resources through a public offering, its second in Canada in two years. Kaiser Steel, which founded the Company 10 years ago as a wholly-owned subsidiary, has reduced its ownership to 33 percent. The Company's Japanese customers own the remaining 27 percent of outstanding shares.

We are pleased to have greater Canadian ownership which we believe will enhance the Company's opportunities for future growth in Canada. In view of the significant change in ownership, the Company has applied to Canada's Foreign Investment Review Agency for a ruling which, if granted, would exempt the Company from the restrictions of the Foreign Investment Review Act.

Increased Dividend

In the fourth quarter of 1976, the Company increased its quarterly dividend to 21½ cents from 20 cents per common share. This is the second increase since the initial dividend of 15 cents per share was paid in the first quarter of 1975. During 1976, the Company paid 81½ cents per common share.

Strength in Partnerships

As a basic business principle, we believe in partnerships — between people, companies and countries — based on mutual trust and confidence. We have found that there is strength in partnerships which leads to solid and sustained business growth.

We are fortunate that our people, through highly-efficient teamwork under challenging conditions, have become partners in accomplishment. Through their ability and dedicated efforts, and with the support of our other partners in Canada and abroad, we have confidence in the future growth and success of Kaiser Resources.

Edgar F. Kaiser
Chairman

Edgar F. Kaiser, Jr.
President and
Chief Executive Officer

March 18, 1977

Mining and Processing

Kaiser Resources' surface and underground mines at Sparwood, B.C. produced a total of 6.6 million tons of raw metallurgical coal during 1976, compared with 7.6 million tons in 1975.

The Elkview preparation plant processed 4.8 million tons of clean metallurgical coal, compared with 5.6 million tons in 1975.

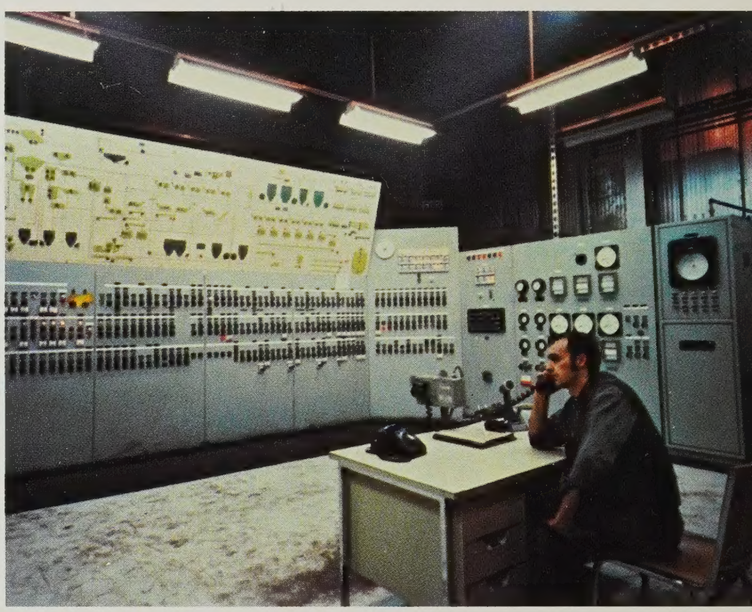
Approximately 85 percent of the raw coal produced is mined by truck-and-shovel methods in mountainous terrain, more than 6,000 feet above sea level. The operation is conducted 24 hours a day, seven days a week, on a scale which permits the use of some of the largest mining equipment available. The truck fleet includes twenty-two 200-ton units and twenty-eight trucks of 100-ton capacity. During 1977, three new 170-ton trucks will be placed in service.

The remaining 15 percent of the raw coal is mined by underground methods, principally by hydraulic mining in which high-pressure water jets are used to extract coal from steeply-pitched seams. The coal is then transported out of the mine in flumes by water to a surface dewatering plant which separates the water from the coal for recycling.

The Company is constructing a new section of the hydraulic mine to extract coal from seams lying below the level at which it would be possible to flume coal out of the mine entirely by gravity. The coal will be flumed from the coal face to an underground partial dewatering station. This station will include facilities to pump fine coal up to the existing dewatering plant and to carry coarse coal to the surface by a conveyor system. Production from the new section of the mine is expected to begin in 1978 as reserves in the older section of the mine are gradually depleted. The new section will extend the life of the hydraulic mine to 1992.

Kaiser Resources operates the only hydraulic mine in North America. Under an agreement between the Company, the Soviet Union and Mitsui Mining of Japan, the technology has been licensed to three other companies for possible use in Western Canada.

Kaiser Resources is studying the possible extension of the limits of the surface operations to lengthen the life of the mine beyond 1985, when the existing sales contract with Mitsubishi Corporation is scheduled to terminate. Preliminary indications are that current levels of production from surface operations could be maintained for a significant number of years beyond 1985 by extending pit limits.



A 106-car unit train, loaded with clean coal from the preparation plant silos, makes a loop at Sparwood to begin the 700-mile journey to the Roberts Bank port.

Raw coal from the surface and underground mining operations is washed in the preparation plant to reduce incombustible material to sales contract specifications. The plant is controlled and monitored by instrumentation from a control room.

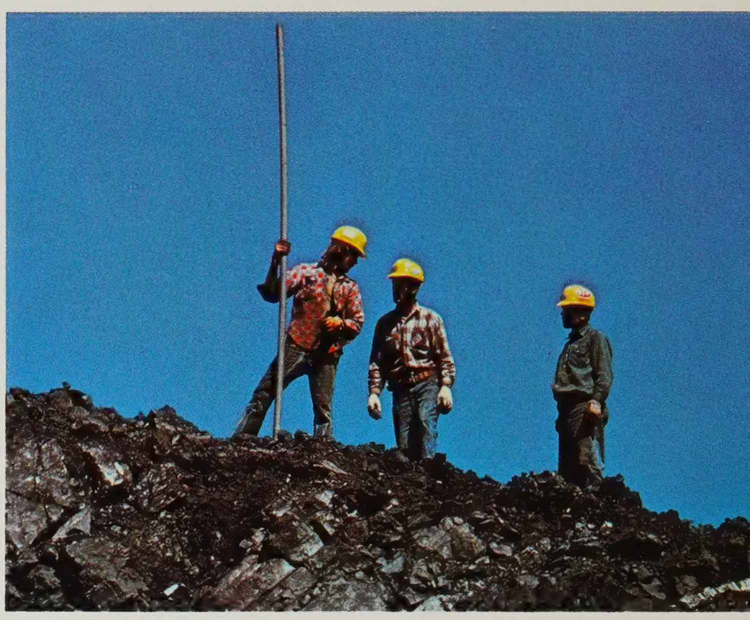
Good road and pit floor conditions are maintained to keep the costs of equipment repair and tire replacement at a minimum. Generally, 200-ton trucks are matched with 25-cubic-yard shovels in removing overburden. The rock is hauled to disposal areas selected for stability, capacity, access and future reclamation.

Employees

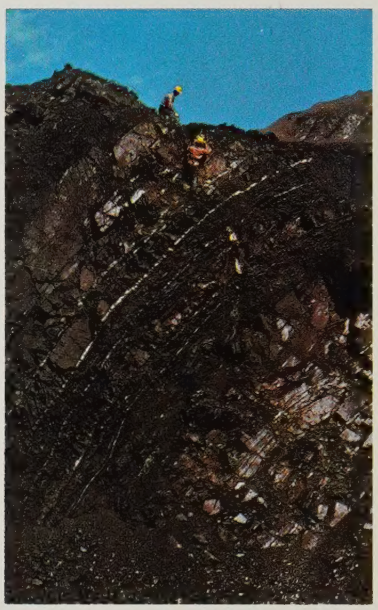
Kaiser Resources and its subsidiaries employed 2,030 people in British Columbia at the end of 1976, a year during which the Company paid $38.4 million in wages, salaries and benefits.

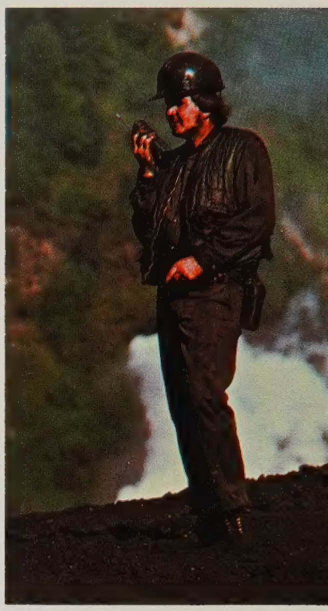
Local 7292 of the United Mine Workers of America, representing 1,500 hourly-paid production and maintenance employees at the mine, went on strike May 16 after the federal Anti-Inflation Board ordered a rollback in compensation which was to have been paid under a new collective agreement between the Company and the Union. On July 14, the Union voted to accept a one-year collective agreement, retroactive to January 1, 1976, ending the two-month strike.

The Company is presently involved in negotiations with the United Mine Workers of America and with the Office and Technical Employees' Union, representing 122 of the Company's administrative and technical employees, for new collective agreements, retroactive to January 1, 1977.



Teamwork is the key to efficiency and safety in Kaiser Resources' coal mining operations in the mountainous terrain of southeastern British Columbia.





A central equipment maintenance complex facilitates access from all areas of the surface mining operations and is fully equipped for preventive maintenance and repair work.

Surface mining requires the removal of shale and sandstone overburden from a few feet to several hundred feet in depth to reach the coal seam. Large rotary drills are used to drill 60-foot holes in the overburden. The holes are then filled with explosives for blasting and fragmented rock is removed by shovels and trucks.

The Environment

Kaiser Resources treated additional old mining and exploration areas during 1976 in its continuing land reclamation program, increasing the total area in various stages of reclamation to approximately 1,420 acres. The environmental services department continued its research program of assessing various species of vegetation which will grow at elevations as high as seven thousand feet.

Operating costs and capital expenditures under the reclamation and environmental control programs totalled $900,000 in 1976. These programs are designed to protect the environment, both at the Sparwood coal mining and processing operations and at the Roberts Bank port facilities, near Vancouver.

The spraying of coal-carrying rail cars with a dust suppressant, carried out under the Company's environmental control program, met with continued success during 1976. The coal is sprayed after loading to control coal dust during the 700-mile rail haul to Roberts Bank.

The Company increased air and water monitoring activities during the year and recorded improved surface water quality throughout its property in southeastern British Columbia. Air quality in 1976 was consistent with the substantially improved results recorded during 1975.

The coke making and oxidized coal facilities at the Michel by-products plant, which were constructed more than 40 years ago, are not in compliance with provincial environmental objectives. The Company must advise the Department of the Environment prior to November 1, 1977 whether it will cease discharge, upgrade present facilities or construct new facilities. The Company is studying the alternatives and has not yet determined its course of action.

A helicopter applies fertilizer on vegetation established in previous years under Kaiser Resources' land reclamation program. On the right, an old surface mine which has been reclaimed by the Company provides high-quality forage for wild!ife in the Sparwood area.

Community Development

The development of a new subdivision in the community of Sparwood in 1975 and 1976 exhausted most of the residential land available within the present townsite. The Company is assisting the community in a study to determine the feasibility of developing additional land to meet immediate and long-term residential requirements.

The District of Sparwood has approximately 400 acres under consideration for gradual development to ultimately accommodate an increase in population of about 4,600 people. Such a development would provide for normal growth and any accelerated growth which could result from additional industrial activity in the area. The community's present population is about 4,400.

The Company has assisted Sparwood in a five-year recreation and park development program designed to improve present facilities as well as to meet the needs of the growing population. The community's present facilities include a recreation centre comprised of an arena, a curling rink and other facilities for community activities. The Company contributed a total of $455,000 towards the cost of this centre, which was completed in 1976.

To the end of 1976, the Company had extended a total of $6 million in employee home-ownership assistance, including forgiveable non-interest bearing mortgage loans.

In other community activities, the Company is participating in two educational programs: a mining course for senior secondary school students at Sparwood, and a curriculum development research project sponsored by the Canadian Institute of Mining and Metallurgy, the University of British Columbia and the provincial Ministry of Education. The mining course is directed towards creating an awareness among students of careers available in mining. The objective of the curriculum development research project is to introduce the subject of mining into elementary and secondary schools in British Columbia.

Most of the Company's employees live in Sparwood, a modern community nestled near the Rockies in the Elk Valley of southeastern British Columbia.

Roberts Bank Port

Westshore Terminals Ltd., the Company's wholly-owned subsidiary, operates one of Canada's largest terminals at the port of Roberts Bank, south of Vancouver. The port has the capability of stockpiling more than one million tons of coal and has facilities to load ships as large as 150,000 deadweight tons.

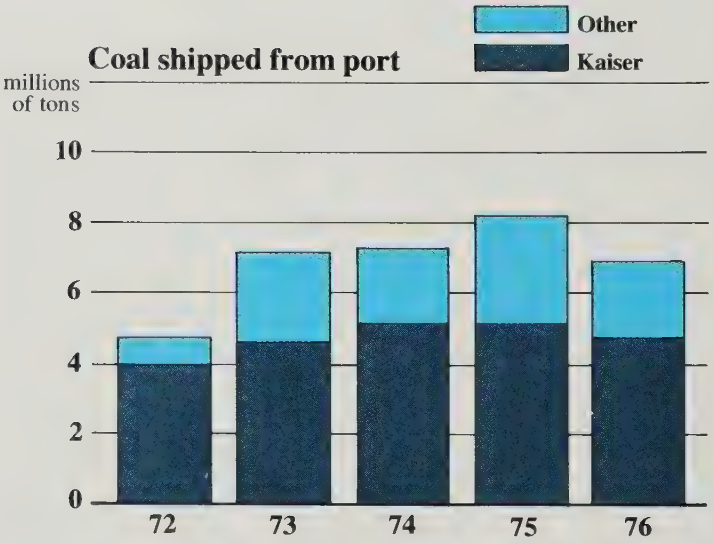
A total of 6.9 million tons of coal and coke were shipped out of Roberts Bank during 1976, including 2.1 million tons from other companies. There were 132 ships loaded at the port during the year.

Environmental control is an integral part of the port's coal-handling operations. During 1976, the Company increased its capacity for spraying stockpiles to control dust in windy conditions. Improvements also were made in the system for washing empty rail cars to remove residual dust before the trains leave the port.

Discussions are being held with federal, provincial and local authorities regarding an expansion of the port. Additional capacity will be necessary to meet increased exports resulting from the expansion of existing coal mines in Western Canada or from the development of new mines. Expansion of the port will be subject to results of an environmental impact study and will require three years for construction.

Westshore Terminals and Locals 502, 514 and 517 of the International Longshoremen's and Warehousemen's Union have reached two-year collective agreements, effective February 1, 1977. The agreements are subject to cancellation after one year should the parties fail to agree on the level of wages for the second year and will be submitted to the federal Anti-Inflation Board for review.

Westshore Terminals has facilities at Roberts Bank to load ships at a rate of 6,300 tons an hour.



Coal Markets

Roberts Bank, located on a 50-acre site in the Strait of Georgia, has facilities to unload unit trains by rotary dumping without uncoupling the cars. From the dumping station, the coal may be distributed to any one of four stockpiling areas or directly to the shiploading system.

Financial Summary

Net Earnings

The Company's earnings before taxes in 1976 were $1.7 million higher than in 1975. However, a higher effective tax rate in 1976 reduced the Company's earnings below the record level of the previous year. Consolidated net earnings totalled $52.4 million or $1.98 per share, compared with consolidated earnings of $64 million or $2.54 per share in 1975. Extraordinary income of $7.2 million or 29 cents per share from tax losses carried forward increased 1975 earnings to $71.2 million or $2.83 per share.

Earnings per share in 1976 were based on a weighted average of 26.4 million shares outstanding during the year, and in 1975 on a weighted average of 25.2 million shares outstanding.

The higher effective tax rate in 1976 resulted from substantially lower earned depletion benefits and from increases in federal and provincial income tax rates. Net earnings were lower due to the absence of extraordinary income tax credits. These credits, reflecting a reduction in income taxes as a result of prior years' losses, were fully utilized in 1975.

Record Sales

Sales rose in 1976 to a record $262.9 million, compared with the previous high of $259.9 million in 1975, despite a reduction in shipments.

The increase resulted from higher prices charged for the Company's products. Under provisions of the Company's long-term sales contract with Mitsubishi Corporation of Japan, the Company's major customer, the price of metallurgical coal increased to $55.09 per ton at December 31, 1976 from $52.40 per ton a year earlier. The year-end price reflects cost escalation of $4.19 for materials, taxes, port, rail and labor, offset by a reduction in the base price of $1.50 per ton, effective April 1, 1976.

The contract with Mitsubishi Corporation provides for the sale of 4.75 million tons of metallurgical coal per year, plus or minus five percent at the buyer's option, through March 31, 1985. Price escalation is allowed to fully cover increases in mineral land taxes and rail freight costs. Escalation also is permitted for increases in labor, pension and material costs and for increases in property and corporation capital taxes, subject to a ceiling of $2.00 in the year ending March 31, 1977. The contract provides for a review of the price to be effective April 1, 1977, subject to arbitration should the parties fail to agree.

Export and domestic shipments of coal, coke and related products during 1976 totalled 5.0 million tons, compared with 5.6 million tons in 1975. Shipments in 1976 included 4 million tons of metallurgical coal to the Japanese steel mills. These lower-than-contract shipments reflect the soft market conditions which prevailed in Japan as a result of decreased steel production. The remaining shipments in 1976 were made to customers in Canada, Denmark, Korea, Mexico and the United States, and included trial shipments to Brazil and Italy.

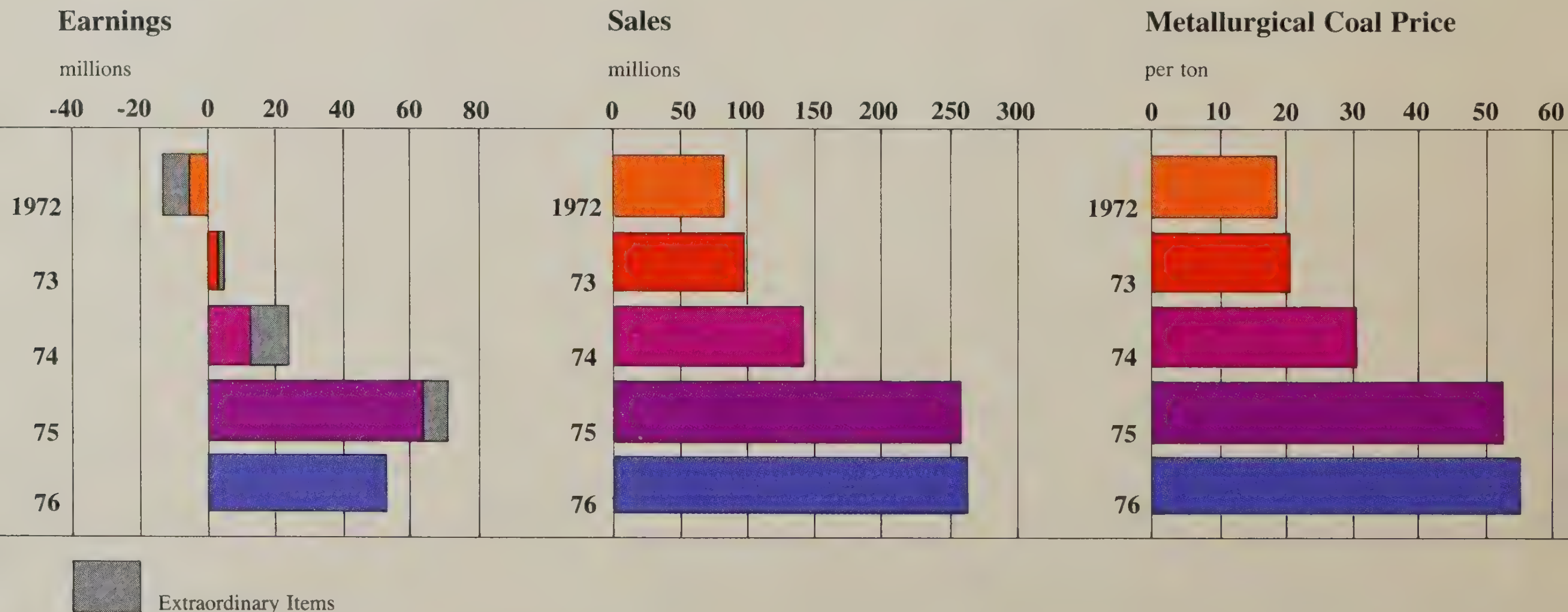
New Markets

The Company negotiated increases in contract tonnages with its new customers on the Pacific Rim during 1976 and shipped trial cargoes of metallurgical coal to potential long-term customers in a continuing program of market diversification.

A new sales contract with Pohang Iron and Steel Company Limited of the Republic of Korea was amended to increase the tonnage to 4.15 million tons from 1.3 million tons and to extend the period of delivery by four years to 1985. Under the contract, 330,000 tons were delivered during 1976; 470,000 tons are to be delivered prior to March 31, 1978; 350,000 tons during the year ending March 31, 1979; and 500,000 tons per year in the following six years.

A new sales contract with Siderurgica Lazaro Cardenas Las Truchas, S.A., a steel mill in Mexico, also was amended to increase the tonnage to 690,000 metric tons from 475,000 metric tons in the three years ending March 31, 1979. Under the contract, 74,000 metric tons were delivered in 1976; 51,000 metric tons are to be delivered prior to March 31, 1977; 240,000 metric tons during the year ending March 31, 1978; and 325,000 metric tons during the last year of the contract.

During 1976, the Company shipped trial cargoes of 37,000 metric tons to two steel mills in Brazil. The Company is currently negotiating with Brazilian interests for a long-term



contract of up to 200,000 tons of metallurgical coal per year from existing operations. A trial cargo of metallurgical coal also was shipped to Italy during 1976.

Public Ownership
Public ownership in Kaiser Resources was 40 percent at the end of 1976, compared with 10 percent after the 1973 refinancing program in which Kaiser Steel Corporation and the Company's Japanese customers made equity investments in the Company. The increased public ownership resulted principally from the exercise of warrants issued to public shareholders in 1974 as part of the refinancing program, and from the sale by Kaiser Steel of two million of its shares of the Company to the Canadian public in 1975 and 3.5 million shares in 1976.

The warrants, issued to reduce the dilution of public ownership in the Company which resulted from the refinancing program, expired on December 31, 1976. The warrants were issued on the basis of one warrant for each share held and each warrant entitled the holder to purchase one new share of the Company for $2.85. Of the 2.5 million warrants issued, 2,460,287 were exercised prior to the expiry date, resulting in proceeds to the Company of $7 million before expenses incurred in the offering.

Kaiser Steel's interest in the Company now is 33 percent and the interest of the Company's Japanese customers is 27 percent.

Taxes Increase
Provisions for taxes to federal, provincial and municipal governments rose to $79.0 million in 1976 from $61.5 million in 1975.

Income and mining taxes accounted for $67.5 million of the 1976 total, while mineral land taxes, property taxes and corporation capital taxes comprised the remaining $11.5 million. The comparable amounts in 1975 were $54.2 million and $7.3 million respectively. Increased income and mining taxes of $13.3 million in 1976 were due to higher federal and provincial tax rates and substantially lower earned depletion benefits which are reflected as a tax rate reduction in the year claimed. These changes increased the effective tax rate from 45.9 percent in 1975 to 56.3 percent in 1976.

Increases in mineral land taxes, property taxes and corporation capital taxes are covered by escalation provisions in the sales contract with Mitsubishi Corporation.

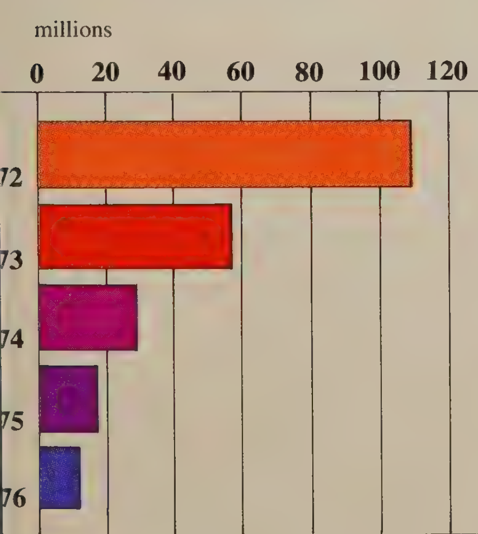
Cash Position
The Company's cash position increased by $20.5 million to $109.4 million during 1976. The investment of these funds in short-term deposits contributed $9.8 million in interest earnings during the year, compared with $4.1 million in 1975.

Capital Expenditures
Capital spending during 1976 amounted to $13.3 million. Of this amount, $7.7 million was spent on the expansion of surface facilities at the hydraulic mine and on the development of the new section of the mine scheduled for completion in 1978. The remainder was spent for replacement and improvement of equipment and facilities in the surface mine and in the preparation plant.

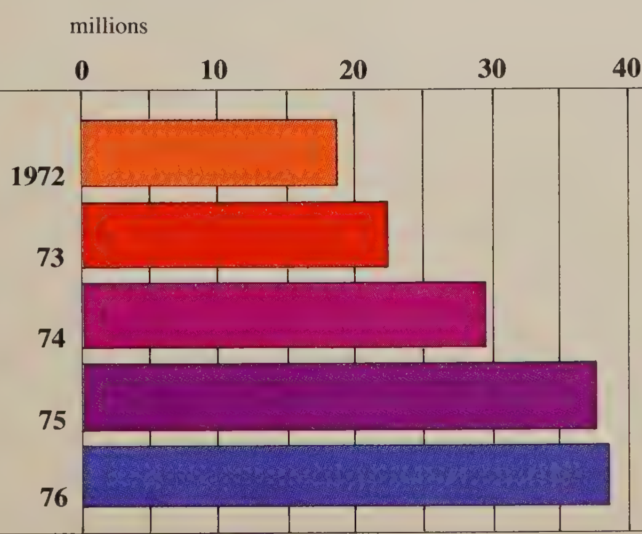
Capital expenditures over the next two years are expected to increase primarily as a result of the further development of the existing hydraulic mine. Cost of this project is expected to total $40 million. Of this amount, approximately $27.4 million remains to be spent in 1977 and 1978. Other capital expenditures during the next two years will be directed principally to the replacement of haulage trucks used in surface mining operations and to the replacement and improvement of other equipment and facilities. The Company has the capability to finance these expenditures from cash generated by operations.

Anti-Inflation Controls
The Federal Government's Anti-Inflation Act establishes guidelines to restrain profit margins, prices, dividends and employee compensation in Canada, and has a stated term through the end of 1978. The Act restricts the Company to a maximum eight percent increase in its annual dividend in the 12 months ending October 13, 1977 over the rate in effect during the immediately preceding 12 months. The degree of restriction that will apply to dividend payments after October 13, 1977, has not been announced by the government.

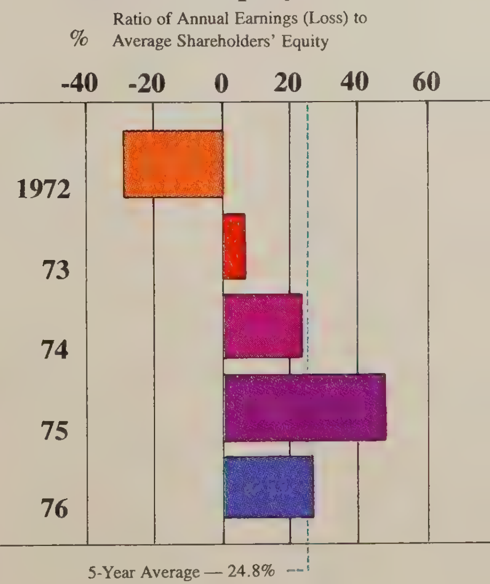
Total Long-Term Debt



Employment Costs



Return on Equity



Financial Statements
Kaiser Resources Ltd.
Consolidated Statement of Earnings
For the years ended December 31, 1976 and 1975

	(Thousands) 1976	1975
Sales (Note B)	**$262,890**	$259,870
Other income, net	**11,732**	5,564
	274,622	265,434
Costs and expenses:		
Cost of products sold	**112,513**	111,053
General and administrative	**13,305**	11,624
Mineral land and property taxes	**10,940**	6,708
Interest on long-term debt	**1,548**	2,535
Depreciation and depletion	**14,801**	13,661
Amortization of preproduction and development costs	**1,600**	1,600
	154,707	147,181
Earnings before provision for income taxes and extraordinary item	**119,915**	118,253
Provision for income taxes (Note I):		
Current	**58,394**	40,970
Deferred	**9,134**	13,283
	67,528	54,253
Earnings before extraordinary item	**52,387**	64,000
Extraordinary item (Note J)	**—**	7,229
Net earnings	**$ 52,387**	$ 71,229

Net earnings per share (Note K):		
Basic earnings:		
Before extraordinary item	**$1.98**	$2.54
Extraordinary item	**—**	.29
	$1.98	$2.83
Fully diluted earnings:		
Before extraordinary item	**$1.95**	$2.39
Extraordinary item	**—**	.27
	$1.95	$2.66

Kaiser Resources Ltd.
Consolidated Statement of Changes in Financial Position
For the years ended December 31, 1976 and 1975

	(Thousands) 1976	1975
Source of funds:		
Earnings before extraordinary item	**$ 52,387**	$ 64,000
Depreciation, depletion and amortization	**16,401**	15,261
Provision for income taxes	**9,134**	20,512
Gain on sale of assets	**(685)**	(434)
Total funds provided by operations	**77,237**	99,339
Capital stock issued	**2,587**	5,845
Proceeds from sale of assets	**1,319**	797
	81,143	105,981
Application of funds:		
Property, plant and equipment purchases	**13,330**	21,416
Other assets acquired	**2,890**	1,443
Reduction of long-term debt	**7,265**	9,189
Dividends paid	**21,593**	19,135
	45,078	51,183
Increase in working capital (see below)	**36,065**	54,798
Working capital at beginning of year	**66,315**	11,517
Working capital at end of year	**$102,380**	$ 66,315

	1976	1975
Summary of increase (decrease) in working capital:		
Cash and short-term deposits	**$ 20,483**	$ 73,407
Accounts receivable	**3,271**	2,269
Inventories	**10,329**	15,463
Prepaid expenses	**509**	(18)
Accounts payable and accrued liabilities	**1,877**	(2,851)
Payroll and related amounts	**(865)**	(562)
Income taxes payable	**454**	(33,479)
Long-term debt due within one year	**7**	569
	$ 36,065	$ 54,798

Kaiser Resources Ltd.
Consolidated Balance Sheet
As at December 31, 1976 and 1975

Assets	(Thousands) 1976	1975
Current assets:		
Cash and short-term deposits	**$109,364**	$ 88,881
Accounts receivable	**8,199**	4,927
Inventories (Note C)	**38,778**	28,450
Prepaid expenses	**1,233**	724
	157,574	122,982
Property, plant and equipment — at cost:		
Land	**17,178**	17,218
Building and land improvements	**54,724**	53,572
Machinery and equipment	**107,524**	104,886
Construction work-in-process	**11,144**	4,120
	190,570	179,796
Accumulated depreciation and depletion	**74,000**	61,133
	116,570	118,663
Other assets	**8,304**	5,426
Deferred preproduction and development costs less amounts amortized	**13,198**	14,798
	$295,646	$261,869

On behalf of the Board:

Edgar F. Kaiser, Jr., *Director*

E. D. H. Wilkinson, Q.C., *Director*

Consolidated Statement of Shareholders' Equity
For the years ended December 31, 1976 and 1975

	Capital Stock Shares Issued	Capital Stock Amount	Contributed Surplus (Thousands)	Retained Earnings
Balance January 1, 1975	23,958,900	$ 23,959	$ 68,751	$ 26,915
Net earnings — 1975				71,229
Exercise of — warrants	1,672,045	1,672	3,093	
— options	284,300	284	796	
Dividends ($.75 per share)				(19,135)
Balance December 31, 1975	25,915,245	25,915	72,640	79,009
Net earnings — 1976				52,387
Exercise of — warrants	776,710	777	1,437	
— options	59,900	60	313	
Dividends ($.815 per share)				(21,593)
Balance December 31, 1976	26,751,855	$ 26,752	$ 74,390	$109,803

Liabilities and Shareholders' Equity

	(Thousands) 1976	1975
Current liabilities:		
Accounts payable and accrued liabilities	**$ 9,922**	$ 11,798
Payroll and related amounts	**5,139**	4,275
Income taxes payable	**33,210**	33,664
Long-term debt due within one year	**6,923**	6,930
	55,194	56,667
Long-term debt (Note D)	**4,785**	12,050
Deferred income taxes (Note I)	**24,722**	15,588
Shareholders' equity:		
Capital stock (Note E)		
Authorized — 28,000,000 common shares of par value $1 each		
Issued and fully paid — 26,751,855 shares (25,915,245 in 1975)	**26,752**	25,915
Contributed surplus (Note F)	**74,390**	72,640
Retained earnings from July 1, 1973 (Notes F and G)	**109,803**	79,009
	210,945	177,564
Commitments and contingencies (Note H)		
	$295,646	$261,869

Auditors' Report

The Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. as at December 31, 1976 and 1975 and the consolidated statements of shareholders' equity, earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants

Vancouver, British Columbia
January 24, 1977

Note A — Summary of Significant Accounting Policies

Accounting Principles:

The Company is incorporated under the Companies Act of the Province of British Columbia and prepares its accounts in accordance with generally accepted accounting principles followed in Canada.

Principles of Consolidation:

The consolidated financial statements include the accounts of Kaiser Resources Ltd. and its wholly-owned subsidiary Westshore Terminals Ltd. Inter-company transactions and accounts have been eliminated.

The investment in Kaiser Coal Canada Ltd., a 70 percent owned joint-venture company formed to perform the feasibility work on a potential new mine on the Company's property, is accounted for on the cost basis.

Translation of Foreign Currency:

Current assets and current liabilities in foreign currencies are translated at rates of exchange in effect at the respective balance sheet dates. Non-current assets are translated at rates of exchange in effect on the date of acquisition and long-term debt obligations are translated at rates in effect on the dates liabilities were incurred. Provisions for loss from exchange rate fluctuations and gains and losses realized on transactions completed during the year are included in earnings.

Inventories:

Inventories of coal and coke are valued at the lower of average cost and net realizable value. Depreciation, depletion and amortization of pre-production and development costs are not included in the determination of inventory costs. Inventories of operating supplies are valued at average cost.

Property, Plant and Equipment:

Depreciation is provided on a straight-line basis over the lesser of the estimated useful life of each asset or the remaining life of the sales contract with Mitsubishi Corporation expiring on March 31, 1985.

Expenditures for repairs and maintenance are charged against earnings. Replacements and major improvements are capitalized. Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts. Gains or losses on such dispositions are included in earnings.

Depletion of coal-bearing land is provided at the rate of 10 cents per short ton of raw coal mined.

Deferred Preproduction and Development Costs:

Preproduction and development costs are amortized on a straight-line basis over the term of the 15-year sales contract with Mitsubishi Corporation.

Income Taxes:

Income taxes are accounted for by the tax allocation method. Under this method, taxes are provided in the year transactions affect net income as opposed to when such items are recognized for tax purposes. Differences between taxes provided and taxes currently payable are reflected as deferred income taxes. Earned depletion benefits are reflected as a tax rate reduction in the year claimed. Tax reductions realized from the application of prior years' loss carry-forwards are recorded as extraordinary items.

Pension Plans:

Annual contributions to employee pension plans are charged against earnings. Such contributions are actuarially determined to include amounts necessary to provide for current service and for the funding of past service liabilities over 15 years.

Note B — Sales

The Company sells the principal portion of its coal production to Mitsubishi Corporation under a long-term contract extending to March 31, 1985 for the production of steel in Japan. The contract provides for price escalation for cost increases and also permits price renegotiations effective April 1, 1977 and April 1, 1980, subject to binding arbitration if the parties are unable to agree.

Note C — Inventories

	(Thousands) 1976	1975
Clean coal and coke	**$ 22,654**	$ 15,540
Raw coal	**882**	208
Operating supplies (less allowances for shrinkage and obsolescence of $729,000 in 1976 and $888,000 in 1975)	**15,242**	12,702
	$ 38,778	$ 28,450

Note D — Long-Term Debt

	(Thousands) 1976	1975
Canadian Bank Credit Agreement, unsecured, interest at ½% over Canadian prime rate, repayable in quarterly installments ending in 1978. (Two installments were prepaid as of December 31, 1976 and 1975)	**$ 6,750**	$ 11,250
U.S. Bank Credit Agreement, unsecured, interest at 1½% over U.S. prime, balance of U.S. $4,600,000 repayable in quarterly installments ending in 1978	**4,830**	7,245
Other	**128**	485
	$ 11,708	$ 18,980
Installments due within one year	**6,923**	6,930
	$ 4,785	$ 12,050

Long-term debt maturities for the years 1977 through 1981 are $6,923,000, $4,676,000, $11,000, $12,000 and $13,000, respectively.

Note E — Capital Stock

Warrants, which entitled public shareholders to purchase shares at a price of $2.85 per share, expired on December 31, 1976. At December 31, 1975 warrants representing 816,423 shares were outstanding.

In 1973 the Company established a stock option program for officers and salaried employees. Options to purchase shares are exercisable for four years commencing one year after date of grant at prices based on the average of the high and low market prices of shares traded on The Toronto Stock Exchange on the date of grant. At December 31, 1976 there were options outstanding to purchase 170,400 shares at prices ranging from $3.15 to $16.00 per share through August 3, 1981. At December 31, 1975 there were options outstanding to purchase 155,400 shares.

Note F — Application of Accumulated Deficit to Contributed Surplus

In 1973 the Company applied the accumulated deficit as of June 30, 1973 of $32,322,752 against contributed surplus in accordance with the equity purchase agreements executed with Mitsubishi Corporation and nine other Japanese companies.

Note G — Restriction on Dividends

Under the Anti-Inflation Act which extends until December 31, 1978, the Company was restricted to a maximum annual dividend of $.80 per share in the twelve months ended October 13, 1976. In the twelve months ending October 13, 1977, the Company is permitted to increase its annual dividend by eight percent. The degree of restriction that will apply to dividend payments subsequent to October 13, 1977 has not been announced by the government.

Note H — Commitments and Contingencies

In 1974 the Company entered into an exploration agreement with Mitsui Mining Company, Limited and Mitsubishi Corporation to conduct a feasibility study of a new mining project on the Company's property capable of producing approximately 2,000,000 long tons of clean metallurgical coal per year. As of December 31, 1976 the Company had invested $2,275,000 in Kaiser Coal Canada Ltd., the company incorporated for the purpose of conducting the feasibility study. If the parties decide to proceed with the project, the Company will be obligated to contribute 50% of the equity capital required to develop the project in exchange for an ownership interest of 70%. However, the parties to the agreement are considering revisions to the responsibility for equity contributions and the addition of new participants, concurrent with the evaluation of the economic feasibility of the project.

Commencing January 1, 1977 the Company is obligated to make production payments to Crows Nest Industries, Limited in the amount of $.50 per short ton of coal mined and shipped from the property after that date and sold, until an aggregate of $34,000,000 is paid. If the payments had been required for 1976, they would have approximated $2,800,000.

Under the hydraulic mining license agreement between the Company and Mitsui Mining Company, Limited which extends until 1992, the Company is committed to pay a royalty of U.S. $.30 per long ton of clean coal produced by the hydraulic mining method. The Company will receive a paid-up license when a total of U.S. $9,000,000 has been paid to Mitsui by the Company and its affiliates. As of December 31, 1976, U.S. $557,000 had been paid under this agreement.

Note I — Provision for Income Taxes

	(Thousands) 1976	1975
Current:		
Federal and provincial income tax	**$ 45,470**	$ 30,221
British Columbia mining tax	**12,924**	10,749
	58,394	40,970
Deferred:		
Federal and provincial income tax	**7,981**	9,637
British Columbia mining tax	**1,153**	3,646
	9,134	13,283
	$ 67,528	$ 54,253

The effective tax rates for the Company were 56.3% in 1976 and 45.9% in 1975. The lower tax rate reported for 1975 reflects the application of $20,400,000 of accumulated earned depletion benefits.

Deferred income taxes arise from claiming depreciation of fixed assets and amortization of preproduction and development costs for tax purposes in excess of amounts recorded in the financial statements.

The application of accounting loss carry-forwards resulted in the recovery of $7,229,000 of income taxes in 1975 (Note J). All accounting loss carry-forwards were fully utilized at December 31, 1975.

Note J — Extraordinary Item

The extraordinary item in 1975 represents the reduction of income taxes otherwise payable due to the application of loss carry-forwards. This treatment is in accordance with accounting principles generally accepted in Canada. For purposes of reporting to U.S. shareholders, however, Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants would require such amounts instead to be included in contributed surplus.

Note K — Earnings Per Share

Basic earnings per share are calculated on the weighted average number of shares outstanding during the year of 26,394,056 in 1976 and 25,157,749 in 1975. Fully diluted earnings per share are calculated on the assumption that all stock options and warrants outstanding were exercised at the beginning of the year or the date of grant in the year, if later, and that funds derived therefrom had been invested at a representative interest rate for the year.

Note L — Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid to directors and senior officers amounted to $1,089,000 for 1976 and $875,000 for 1975.

Note M — Pension Plans

The Company's contributions to employee pension plans amounted to $913,000 in 1976 and $199,000 in 1975. The increase in pension contributions for 1976 resulted principally from the establishment of a pension plan for hourly employees covered by the collective agreement with the United Mine Workers of America. At December 31, 1976 the unfunded past service liabilities of all Company pension plans amounted to $3,271,000.

Note N — Anti-Inflation Legislation

The Company is subject to the Anti-Inflation Act which imposes restraints on employee compensation, domestic prices and profit margins, and dividend payments. The Act became effective from October 14, 1975 and extends to December 31, 1978.

Note O — Replacement Costs

Replacement cost data for inventories and cost of sales for 1976 will be provided in the Company's annual report on Form 10-K to be filed with the Securities and Exchange Commission, Washington, D.C., on or before March 31, 1977. A copy of this report may be obtained from the Company upon request. The effect of inflation during the year has been to increase production costs. The Company has generally been able to recover such increases through price escalation provisions of its sales contracts.

Note P — Quarterly Financial Data (Unaudited)

(Thousands except for share statistics)

	1976 Quarters Ended				1975 Quarters Ended			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	Mar. 31	June 30	Sept. 30	Dec. 31
Shipments — tons	**1,288**	**1,442**	**891**	**1,333**	1,317	1,307	1,576	1,393
Sales	**$69,494**	**$74,788**	**$46,697**	**$71,911**	$49,189	$64,312	$77,629	$68,740
Gross profit	**41,337**	**43,269**	**25,495**	**40,276**	25,248	38,491	46,569	38,509
Earnings before extraordinary item	**14,594**	**15,861**	**7,622**	**14,310**	9,400	16,799	20,512	17,289
Net earnings	**14,594**	**15,861**	**7,622**	**14,310**	15,221	18,207	20,512	17,289
Basic earnings per share:								
Before extraordinary item	**$ .56**	**$ .60**	**$ .29**	**$ .54**	$ .39	$ .67	$ .80	$ .67
Net earnings	**.56**	**.60**	**.29**	**.54**	.63	.73	.80	.67
Fully diluted earnings per share:								
Before extraordinary item	**.54**	**.59**	**.28**	**.53**	.35	.63	.77	.64
Net earnings	**.54**	**.59**	**.28**	**.53**	.57	.68	.77	.64
Dividends per share	**.20**	**.20**	**.20**	**.215**	.15	.20	.20	.20
Common stock price (Toronto Stock Exchange)								
High	**$ 12.88**	**$ 14.75**	**$ 16.38**	**$ 15.25**	$ 9.00	$ 11.50	$ 12.75	$ 11.88
Low	**9.38**	**10.00**	**13.63**	**12.50**	4.90	8.38	10.00	9.38

(Thousands of dollars except for share statistics)	**1976**	1975	1974	1973	1972
Shipments — 000 Tons					
Metallurgical coal	**4,530**	4,971	4,969	4,675	4,046
Thermal coal	**314**	489	329	70	102
Coke and breeze	**110**	133	161	169	141
Total	**4,954**	5,593	5,459	4,914	4,289
Summary of Earnings					
Sales	**$262,890**	$259,870	$142,597	$ 97,439	$ 81,657
Other income, net	**11,732**	5,564	3,997	2,385	1,223
Total	**274,622**	265,434	146,594	99,824	82,880
Cost of products sold	**112,513**	111,053	87,327	66,147	58,318
General and administrative	**13,305**	11,624	8,701	6,464	5,838
Mineral land and property taxes	**10,940**	6,708	3,599	1,663	1,636
Interest	**1,548**	2,535	5,875	8,202	8,623
Depreciation and depletion	**14,801**	13,661	12,850	12,322	12,582
Amortization of preproduction and development costs	**1,600**	1,600	1,594	1,507	1,540
Earnings (loss) before provision for income taxes and extraordinary items	**119,915**	118,253	26,648	3,519	(5,657)
Provision for income taxes	**67,528**	54,253	13,986	735	—
Extraordinary items	**—**	7,229[1]	11,496[1]	694[1]	(7,363)[2]
Net earnings (loss)	**$ 52,387**	$ 71,229	$ 24,158	$ 3,478	$ (13,020)
Weighted average number of shares outstanding	**26,394**	25,158	23,954	15,917	10,000
Share Statistics					
Basic earnings (loss):					
Before extraordinary items	**$ 1.98**	$ 2.54	$ .53	$ .18	$ (.56)
Extraordinary items	**—**	.29	.48	.04	(.74)
Net earnings (loss)	**1.98**	2.83	1.01	.22	(1.30)
Dividends	**.815**	.75	—	—	—
Book value at year end	**7.89**	6.85	4.99	3.99	3.70
TSE common stock price — high	**16.38**	12.75	5.38	5.75	4.75
— low	**9.38**	4.90	3.00	2.00	1.80
Other Financial Data					
Cash flow from operations	**$ 77,237**	$ 99,339	$ 40,603	$ 17,338	$ 8,849
Working capital	**102,380**	66,315	11,517	4,376	(21,086)
Capital expenditures	**13,330**	21,416	10,186	9,620	7,221
Total assets	**295,646**	261,869	163,511	160,985	160,285
Total long-term debt	**11,708**	18,980	28,738	57,442	109,367
Shareholders' equity	**210,945**	177,564	119,625	95,434	36,955
Shareholders at year end	**6,455**	5,390	3,957	3,810	3,576
Employees at year end	**2,030**	2,008	1,960	1,725	1,593

Notes: (1) Reduction of income taxes otherwise payable due to the application of loss carry-forwards.
(2) Provision for loss on sale and abandonment of certain equipment and facilities.

Management's Discussion and Analysis of the Summary of Earnings

Following is an analysis of significant variances of revenue and expense in the Summary of Earnings:

1976 Compared with 1975

During the past three years, metallurgical coal has accounted for 90% or more of the Company's product sales and gross profits. *Sales* in 1976 increased slightly over the preceding year as the price for metallurgical coal shipped to Japan increased from $52.40 to $55.09 a ton. Revenue from increased prices was offset by a decline of 9% in metallurgical coal shipments, resulting primarily from soft market conditions experienced during the year.

Earnings for 1976 increased cash balances to $109.4 million at year-end. Interest earnings from the placement of these funds in short-term investments accounted for the increase in *other income*.

Costs and expenses increased in 1976 mainly because of higher mineral land taxes and increased general and administrative expense. *Cost of products sold* rose only slightly because the increases in product costs were almost entirely offset by lower shipments. Efforts to further diversify markets and to expand business activities resulted in increased staffing requirements and related costs which, together with higher insurance costs, were the main causes of the increase in *general and administrative expense*. *Mineral land and property taxes* increased due to a rise in the mineral land taxes paid to the Provincial Government from $1.00 to $1.50 per ton and higher property tax rates. *Interest expense* continued to decrease as in previous years, reflecting the retirement of long-term debt.

Income taxes rose by $13.3 million in 1976 as a result of higher federal and provincial income tax rates, and the decrease in earned depletion benefits which are treated as a tax rate reduction in the year claimed. This caused the effective tax rate of the Company to rise from 45.9% in 1975 to 56.3% in 1976.

The absence of *extraordinary income* in 1976 reflects the exhaustion of accumulated loss carry-forwards in the preceding year.

1975 Compared with 1974

Sales increased to $259.9 million in 1975, primarily because of higher prices for the Company's products. The price for metallurgical coal sold under the Mitsubishi contract increased from $30.24 to $52.40 per ton.

Interest income from the investment of the Company's increasing cash balances accounted for the rise in *other income*.

Inflation was the main cause for the increase in costs and expenses in 1975. *Cost of products sold* rose as a result of inflationary pressures on the cost of labor, materials and utilities. The most significant increases in costs of materials were for parts, fuels, lubricants and explosives. *General and administrative expense* rose due to increased exploration activity on the Company's property and higher salaries. The increase in *mineral land and property taxes* was caused by the increase in the mineral land tax rate from $.50 to $1.00 per ton and higher property tax rates. *Interest expense* declined as a result of the retirement of debt.

Income taxes in 1975 rose by $40.3 million owing to substantially higher earnings, partially offset by the application of $20.4 million of accumulated earned depletion benefits which reduced the effective tax rate to 45.9% from 52.5% in the previous year.

Extraordinary income in 1975 was lower than in 1974 because accumulated loss carry-forwards were exhausted during the year.

Prior Years

In the years 1972 and 1973 the Company overcame the start-up problems of its mine, renegotiated its sales contract with the Japanese in terms of price and other conditions, and retired $55,000,000 of debt through an equity refinancing program.

In Memoriam

Ian N. McKinnon

The directors were saddened by the death of their colleague, Ian N. McKinnon, on December 23, 1976, in Calgary. A prominent Canadian businessman and public servant, Mr. McKinnon served on the board of Kaiser Resources since 1969 and as chairman of the audit committee since 1973. His counsel and friendship will be missed.

Stephen A. Girard, George A. Jedenoff and Roland A. Kjelland resigned as directors of Kaiser Resources, effective March 15, 1977. The Company is extremely grateful for their past service.

Mr. Girard, a director since 1972, served as president and chief executive officer of Kaiser Resources for 17 months beginning in March, 1972, as chairman of the board for several months in 1974, and as chairman of the executive committee from 1972 to 1974.

Mr. Jedenoff, a director since 1974, served as a member of the executive committee from 1974 to 1976.

Mr. Kjelland has been a director and a member of the audit committee since 1972. He served as an officer of the Company from 1970 to 1973, principally as executive vice-president, finance and administration.

Directors and Officers

Directors

Edgar F. Kaiser*
Chairman, Kaiser Resources Ltd., Vancouver
Chairman, Kaiser Steel Corporation, Oakland, California
(major western U.S. steel producer)

Graham R. Dawson*
Vice-Chairman, Kaiser Resources Ltd.
President, Dawson Construction Limited, Vancouver
(heavy construction contractors)

Edgar F. Kaiser, Jr.*
Chairman of the Executive Committee
President and Chief Executive Officer, Kaiser Resources Ltd., Vancouver

Howard E. Cadinha
Executive Vice-President, Finance and Administration
Kaiser Resources Ltd., Vancouver

Paul G. Desmarais
Chairman and Chief Executive Officer
Power Corporation of Canada Limited, Montreal
(investment and management company)

Roger T. Hager*
Retired Chairman
The Canadian Fishing Company Limited, Vancouver (fish processing)

Enji Haseo
Managing Director, Ferrous Metals
Mitsubishi Corporation, Tokyo (trading company)

Robert W. MacPhail
Executive Vice-President, Operations
Kaiser Resources Ltd., Vancouver

John W. Poole*
President and Chief Executive Officer
Daon Development Corporation, Vancouver
(real estate development)

Edward A. Tory
Partner, Campbell, Godfrey & Lewtas
Toronto (barristers and solicitors)

E.D.H. Wilkinson, Q.C.†
Partner, Russell & DuMoulin
Vancouver (barristers and solicitors)

*Member of the Executive Committee
†Chairman of the Audit Committee

Officers

Edgar F. Kaiser
Chairman of the Board

Graham R. Dawson
Vice-Chairman of the Board

Edgar F. Kaiser, Jr.
Chairman of the Executive Committee
President and Chief Executive Officer

Howard E. Cadinha
Executive Vice-President, Finance and Administration

Robert W. MacPhail
Executive Vice-President, Operations

Robert H. Gronotte
Vice-President, Engineering

John H. Harvie
Vice-President, Marketing and Sales

Christopher H. Hebb
Vice-President, General Counsel and Secretary

Robert G. Heers
Vice-President, New Project Development

Ward P. Popenoe
Vice-President, Administration

Walter J. Riva
Vice-President, Mining Operations

Peter M. Bradbury
Treasurer

Bent H. Larsen
Controller and Assistant Secretary

Thomas A. Beckett
Counsel and Assistant Secretary

Auditors
Touche Ross & Co.

Transfer Agent
Canada Permanent Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

Registrar
National Trust Company Limited
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

Shares Listed
Vancouver, Toronto and Montreal Stock Exchanges

LITHO'D IN CANADA AGENCY PRESS LIMITED


KAISER
RESOURCES

AR10

KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

(In Thousands of Dollars)

	Three Months Ended June 30 1976	Three Months Ended June 30 1975	Six Months Ended June 30 1976	Six Months Ended June 30 1975
Sales	$ 74,788	$ 64,312	$144,282	$113,501
Other income — net	2,893	832	5,566	1,469
	77,681	65,144	149,848	114,970
Costs and expenses:				
Cost of products sold	31,519	25,821	59,676	49,762
General and administrative	5,581	4,406	11,490	8,372
Interest on long-term debt	407	650	847	1,406
Depreciation and depletion	3,674	3,351	7,473	6,682
Amortization of preproduction and development costs	400	400	800	800
	41,581	34,628	80,286	67,022
Earnings before provision for income taxes and extraordinary items	36,100	30,516	69,562	47,948
Provision for income taxes	20,239	13,717	39,107	21,749
Earnings before extraordinary items	15,861	16,799	30,455	26,199
Extraordinary income tax credit due to loss-carry-forward	—	1,408	—	7,229
Net earnings	$ 15,861	$ 18,207	$ 30,455	$ 33,428
Weighted average number of shares outstanding (in thousands)	26,378	24,993	26,221	24,605
Net earnings per share:				
Basic earnings:				
Before extraordinary items	$ .60	$ .67	$ 1.16	$ 1.06
Extraordinary items	—	.06	—	.30
Net earnings	$ .60	$ .73	$ 1.16	$ 1.36
Fully diluted earnings:				
Before extraordinary items	$ .59	$ .63	$ 1.13	$ .98
Extraordinary items	—	.05	—	.27
Net earnings	$ .59	$ .68	$ 1.13	$ 1.25

KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

(In Thousands of Dollars)

	Six Months Ended June 30 1976	Six Months Ended June 30 1975
Source of Funds:		
Earnings before extraordinary items	$ 30,455	$ 26,199
Items not requiring an outlay of funds:		
Depreciation and depletion	7,473	6,682
Amortization of preproduction and development costs	800	800
Provision for income taxes	7,489	10,449
Gain on sale of assets	(391)	—
Total funds provided by operations	45,826	44,130
Capital stock issued	1,656	4,594
Proceeds from sale of assets	536	172
Total source of funds	48,018	48,896
Application of Funds:		
Property, plant and equipment purchases	3,650	7,786
Other assets acquired	1,533	635
Reduction of long-term debt	3,651	3,495
Dividends paid	10,552	8,810
Total application of funds	19,386	20,726
Increase in working capital	28,632	28,170
Working capital at beginning of period	66,315	11,517
Working capital at end of period	$ 94,947	$ 39,687

On behalf of the Board:
Edgar F. Kaiser, Jr., Director
Ian N. McKinnon, Director

WESTERN MINER PRESS LTD.

KAISER RESOURCES

Report to Shareholders First Half of 1976

TO OUR SHAREHOLDERS

The Company had consolidated net earnings of $15,861,000 or 60 cents per share in the second quarter of 1976 on sales of $74,788,000. Earnings per share were based on a weighted average of 26,378,000 shares outstanding during the quarter.

In the comparable three months of 1975, the Company had consolidated net earnings of $18,207,000 or 73 cents per share, including extraordinary income of $1,408,000 or six cents per share from tax losses carried forward. Sales during the second quarter of 1975 were $64,312,000, and earnings per share were based on a weighted average of 24,993,000 shares outstanding during the period.

For the first six months of 1976, the Company had consolidated net earnings of $30,455,000 or $1.16 per share on sales of $144,282,000. Earnings per share were based on a weighted average of 26,221,000 shares outstanding during the half.

In the first half of 1975, the Company had consolidated net earnings of $33,428,000 or $1.36 per share, including extraordinary income of $7,229,000 or 30 cents per share from tax losses carried forward, on sales of $113,501,000. Earnings per share were based on a weighted average of 24,605,000 shares outstanding during the period.

Net earnings for the second quarter of 1976 were lower than earnings for the same period last year primarily as a result of higher provisions for federal and provincial income taxes and the lack of extraordinary income from prior years' loss carry-forwards, which were fully utilized in 1975.

Shipments of metallurgical coal totalled 1,338,000 long tons during the second quarter of 1976, compared with 1,116,000 long tons in the same period last year.

Members of Local 7292 of the United Mine Workers of America went on strike at the Company's mining and processing operations at Sparwood, B.C. May 16 after the federal Anti-Inflation Board rolled back compensation which was to have been paid under a collective agreement between the Company and the Union. The Union voted July 14 to accept a one-year collective agreement, retroactive to January 1, 1976, and to return to work immediately. The Company is making the required submission to the Anti-Inflation Board demonstrating compliance with the anti-inflation guidelines.

As a result of the strike, inventories of metallurgical coal at the Roberts Bank port diminished to 78,000 long tons by June 30, 1976 and our Japanese customers diverted ships to other coal suppliers. Discussions are being held with our customers to re-establish shipping schedules at the earliest possible date. The loss of ships originally scheduled for July is expected to have an adverse effect on the Company's total shipments for the third quarter.

The Company has concluded collective agreements with the Office and Technical Employees' Union and the East Kootenay Firebosses' Union retroactive to January 1, 1976 and April 1, 1976, respectively. The agreements are subject to ratification by the membership and a review by the Anti-Inflation Board.

As announced at the annual general meeting on May 25, 1976, the Company has negotiated amendments to its new sales contracts with steel companies in the Republic of Korea and Mexico which increase the amounts of metallurgical coal to be delivered under these agreements.

The contract with a Korean steel company for the purchase of 1.3 million long tons of metallurgical coal over the next five years has been amended to increase the tonnage to 4,150,000 long tons and to extend the period of delivery to 1985. The Korean company has agreed to purchase 300,000 long tons by the end of 1976.

Tonnage under the agreement with a Mexican steel mill has been increased from 475,000 metric tons of metallurgical coal over the next three years to 690,000 metric tons. The contract now calls for shipments of 125,000 metric tons in the period ending March 31, 1977. The Company is continuing to pursue opportunities to increase sales to other countries.

It was also announced at the annual meeting that a new underground mine and plant complex in the Hosmer-Wheeler area of the Company's property in southeastern British Columbia is now considered to be technically feasible and studies are in progress to determine its economic viability.

On June 30, 1976, the Company paid a quarterly dividend of 20 cents per common share to shareholders of record at the close of business on June 15, 1976.

July 30, 1976

Edgar F. Kaiser
Chairman

Edgar F. Kaiser, Jr.
President and Chief
Executive Officer

BOARD OF DIRECTORS

E. F. KAISER*
Chairman, Kaiser Resources Ltd.
Chairman, Kaiser Industries Corporation
Oakland, California

G. R. DAWSON*
Vice-Chairman, Kaiser Resources Ltd.
President, Dawson Construction Limited
Vancouver

E. F. KAISER, Jr.*
President & Chief Executive Officer
Chairman, Executive Committee
Kaiser Resources Ltd., Vancouver

H. E. CADINHA
Vice-President, Finance & Planning
Kaiser Resources Ltd., Vancouver

P. G. DESMARAIS
Chairman & Chief Executive Officer
Power Corporation of Canada Limited
Montreal

S. A. GIRARD
President, Group Operations
Kaiser Industries Corporation
Oakland, California

R. T. HAGER*
Retired Chairman
The Canadian Fishing Company Limited
Vancouver

ENJI HASEO
Managing Director, Ferrous Metals
Mitsubishi Corporation
Tokyo, Japan

G. A. JEDENOFF*
President & Chief Operating Officer
Kaiser Steel Corporation
Oakland, California

R. A. KJELLAND
Executive Vice-President, Group Operations
Kaiser Industries Corporation
Oakland, California

R. W. MacPHAIL
Executive Vice-President, Operations
Kaiser Resources Ltd., Vancouver

I. N. McKINNON
Chairman, Consolidated Pipe Lines Company
& Consolidated Natural Gas Limited
Calgary

J. W. POOLE
President & Chief Executive Officer
Daon Development Corporation
Vancouver

E. A. TORY
Partner, Campbell, Godfrey & Lewtas
Toronto

E. D. H. WILKINSON, Q.C.
Partner, Russell & DuMoulin
Vancouver

**Member, Executive Committee*

KAISER RESOURCES

Executive Offices:
2600 Board of Trade Tower
1177 West Hastings Street
Vancouver, B.C. V6E 2L1